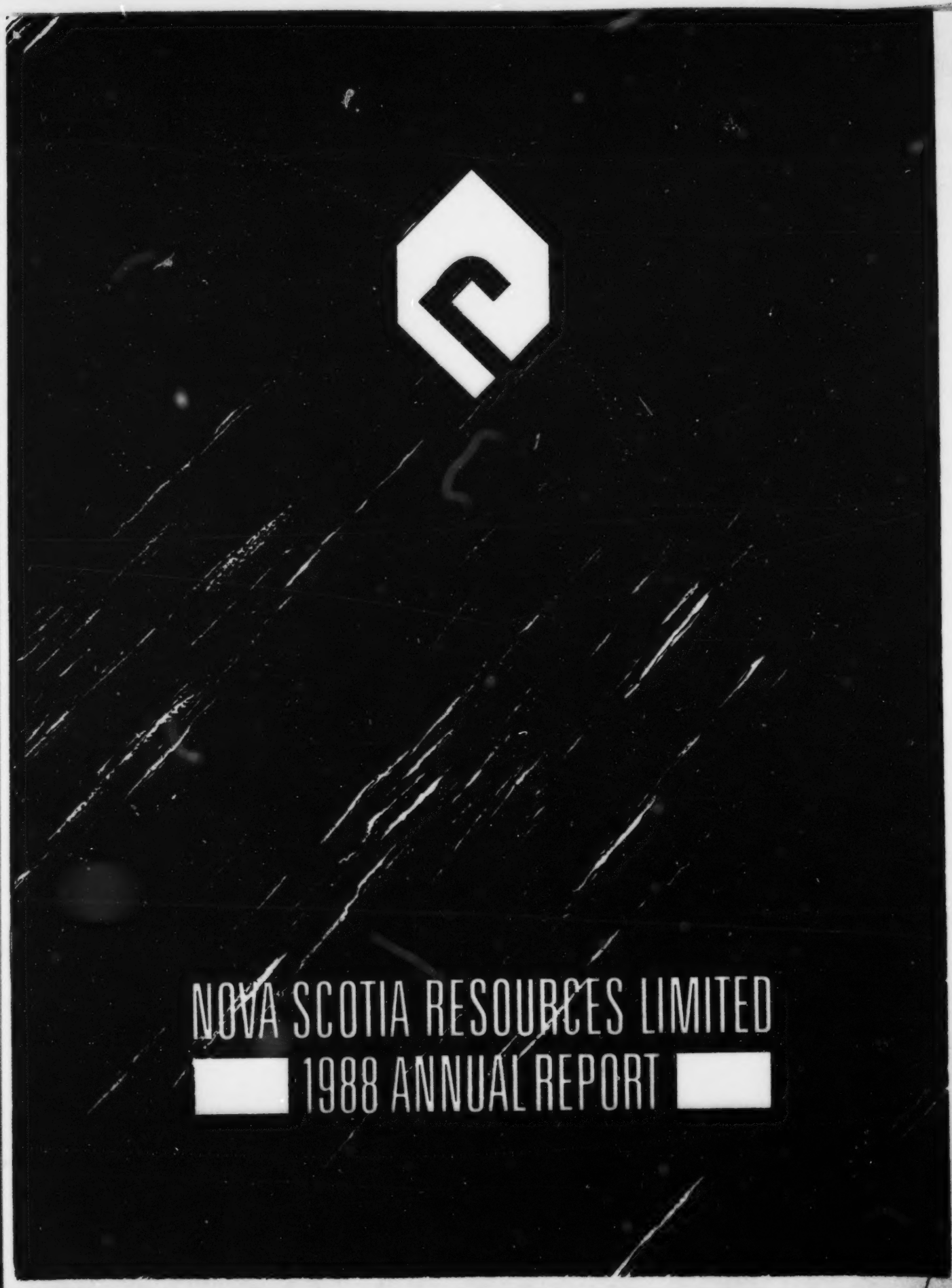


NOVA SCOTIA RESOURCES LIMITED

1988 ANNUAL REPORT

Corporate Profile

A Crown corporation of Nova Scotia established in 1981 to invest and manage the Province's interests in petroleum, energy and mineral resources development and related industrial projects.

Statement tabled October 28, 1987 for the members of the Public Accounts and Economic Development Committees of the Nova Scotia Legislature.

NSRL Offshore Assets

1. NSRL has participated in 28 offshore wells since spring 1982, of which 23 encountered or tested hydrocarbons. As a result, it holds interests in all major oil and gas fields and nearly all Significant Discovery Areas. Major fields include a 10% interest in the three-field Venture Gas Project, approximately 20% of the Cohasset oil field and approximately 39% of the Panuke oil field.

2. Based on independent assessment, NSRL owns 7.82% of oil and gas reserves in the major fields and 7.03% of total discovered reserves on the Scotian Shelf.

3. NSRL currently owns recoverable reserves of natural gas, natural gas liquids and light oil totalling approximately 70 million barrels of oil equivalent.

THE PRESIDENT'S MESSAGE

Peter A. Outhit
President and Chief Executive Officer

In 1987/88 NSRL recorded two valuable financial achievements. Low-cost financing under the Company's Euro Commercial Paper Programme and an extraordinary foreign exchange gain combined to reduce the net cost of funds to only 1.1% for the year. And the Company acquired, in fall 1987, substantial cash flows from producing oil and gas properties in a transaction which utilizes part of NSRL's accumulated tax expenditure pools. Beginning this year, net income from these properties will significantly offset the cost of the Company's ongoing offshore investment program.

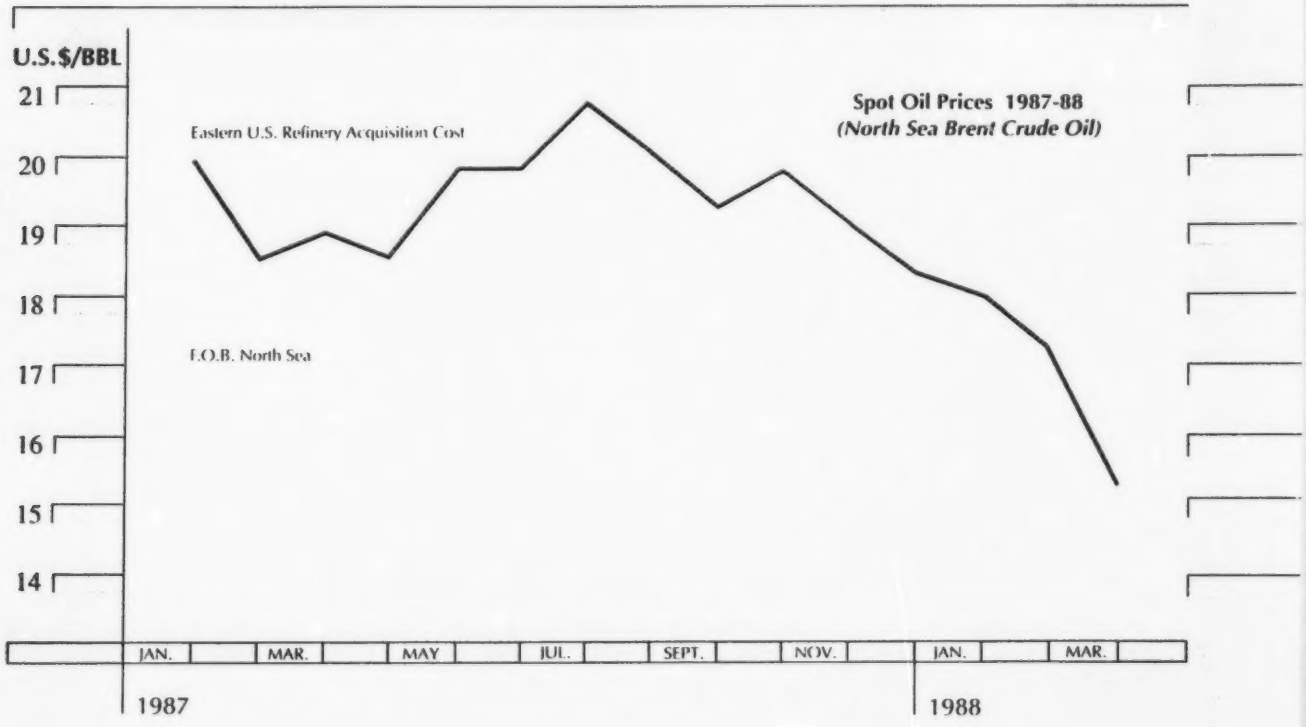
The highlight of the 1987 offshore drilling program was the Panuke oilfield appraisal well, which successfully tested and produced to tanker more than 23,000 barrels of light oil. NSRL was instrumental in securing the drilling of this appraisal and the initial Panuke discovery well in 1986. Our interests in Panuke and the neighbouring Cohasset oilfields approximate 39% and 20% respectively. According to reservoir studies carried out by NSRL and Petro-Canada, the fields together contain about 100 million barrels of oil, of which some 35 million barrels could be economically recoverable. Economic evaluations confirm that their combined development could be viable at real oil prices substantially less than U.S. $20/barrel. Throughout 1987/88 we maintained the effort to move these important fields closer to early development.

In 1987, NSRL management outlined to the Executive Council of the Province and to the Public Accounts and Economic Development Committees of the Nova Scotia legislature our corporate assets, offshore development strategy, business priorities and revenue projections. We explained the key assumptions underpinning our confidence in future development of the offshore and its impact on the Company.

Industry exploration budgets and activity levels began to recover during the 1987/88 period with an increasing perception of longer term improvement in petroleum markets. Oil prices fluctuated between U.S. $15 - $20/barrel in response to the world oil supply/demand situation. Current low prices are stimulating an increase in world oil demand, and the majority of analysts forecast a steady rise in oil prices as soon as the current international oil supply/demand imbalance is reduced.

Natural gas usage in North America has a bright future. Markets in the New England and Mid-Atlantic U.S. continue to show the most promising prospects for growth perspective, and future large-scale use of gas for electrical power generation and air conditioning is anticipated. Buyers and sellers predict an end to the prolonged "bubble" of cheap low-cost domestic gas by the early 1990's, at which time the price should reflect the cost of producing and delivering replacement supplies. Under these conditions, Nova Scotia offshore gas would become competitive and well positioned to penetrate northeast U.S. energy markets.

During the year, NSRL retransferred to the Minister of Mines and Energy the shares it held in Novaco Limited, the Province's near-surface mining company. Due primarily to depressed prices for thermal coal, Novaco had undertaken no further mining operations since 1985, and the retransfer reflects its current function as a technical advisory agency to the Nova Scotia goverment.



I wish to note the retirement from our Board in August 1987 of three senior Nova Scotia government members. We are deeply indebted to Richard Brookfield, President, Municipal Finance Corporation; John Laffin, Deputy Minister, Department of Mines and Energy; and James McNiven, Deputy Minister, Department of Development, for their long-standing and valuable service to the Company in its formative years. We welcome the appointment to the Board of John L. Stoik, the recently retired President and Chief Executive Officer of Gulf Canada Limited, and Allan G. Manuel, C.A., Deputy Minister, Nova Scotia Department of Finance.

July, 1988

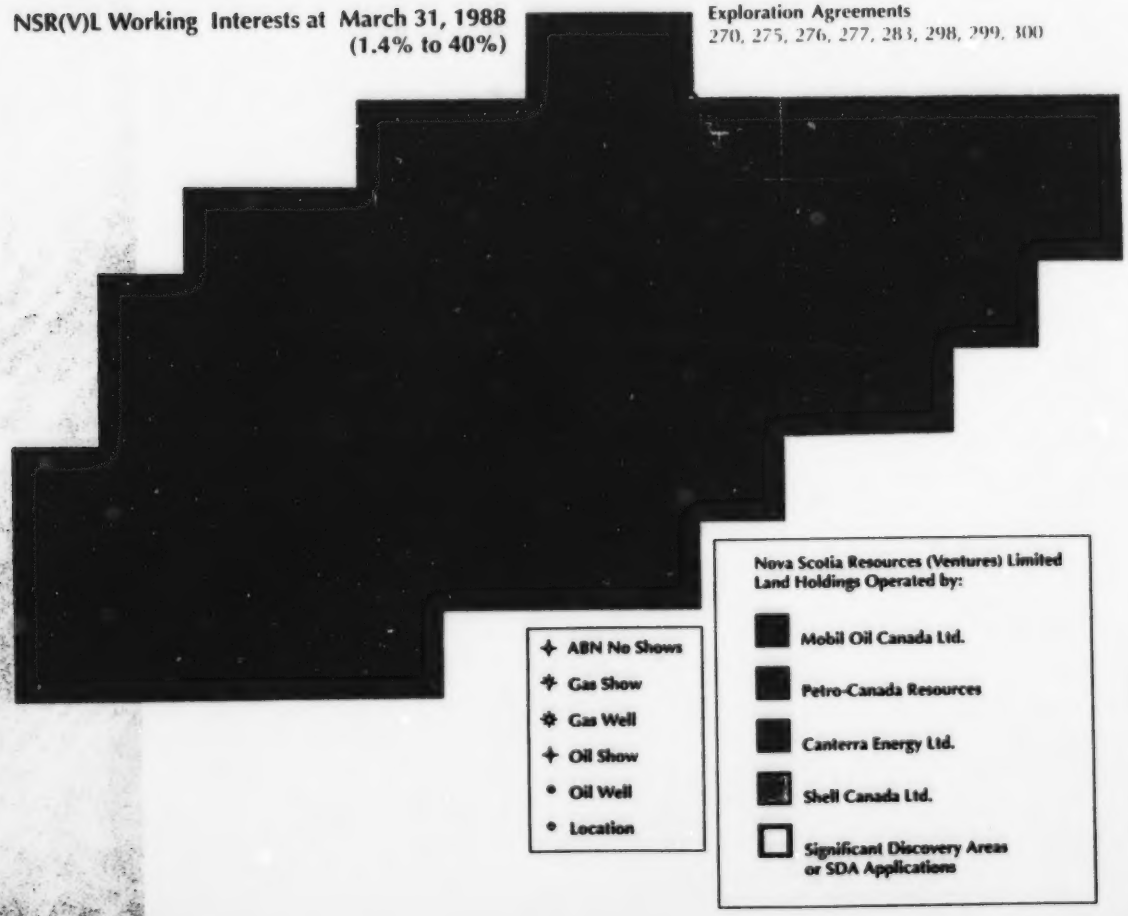
OPERATIONS 1987/88

Offshore Exploration

During the year the Company initiated or participated in three exploration/appraisal wells in the Sable Island region. **Whycocomagh N-90,** a validating well for Exploration Agreement #270 issued in 1985 to a joint venture under the operatorship of Canterra Energy, was the last PIP-grandfathered well on the Scotian Shelf. **Como P-21** was drilled as part of the Company's strategy to identify prospective oil structures to the southwest of Sable Island. **Panuke F-99** was the first appraisal well in the Panuke oil field following its discovery well in September 1986.

Whycocomagh N-90

The well was spudded in 68 meters of water by Canterra April 20, 1987 at a location southwest of Sable Island and 15-25km from the Alma and Glenelg gas discoveries. Participants were Canterra 39%, Petro-Canada 26%, Trillium Exploration 20% and NSR(V)L 15%. Its objective was to test the gas potential of the Upper Missisauga Sands. The well was drilled by the Sedco 710 semi-submersible unit to a total depth of 3,536 meters; it encountered porous, wet sands and several thin gas-bearing strata which did not warrant testing. Rig release took place June 26, 1987.



Como P-21

This well was drilled by Petro-Canada as an independent activity on lands within Exploration Agreement #277 operated by Shell. Participants in the well were Petro-Canada 46%, NSR(V)L 52% and Trillium Exploration 2%. NSR(V)L earned a working interest of 27.25% in the lands containing the Como structure.

Como P-21 was spudded May 14,1987 at a location 14 kilometers west of the Cohasset field and 8 kilometers northwest of the Panuke B-90 oil discovery, in 40 meters of water using the jack-up rig Rowan Gorilla I. The well penetrated a large structural trap but the oil-bearing sands encountered at Cohasset and Panuke were absent. The well was abandoned at a total depth of 3,540 meters on June 22, 1987.

Panuke F-99

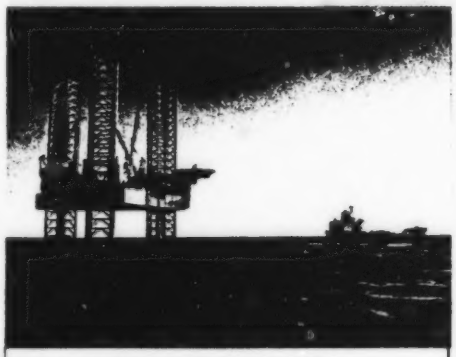
NSR(V)L initiated the drilling of the Panuke F-99 appraisal well on the Panuke oil structure as an independent activity within Exploration Agreement #299, which is operated by Shell. Petro-Canada was designated Operator of the well, spudded in 47 meter water depth on May 14, 1987 and utilizing the Rowan Gorilla I jack-up rig following release from Como P-21.

Panuke F-99 was located 3 kilometers southwest of the 1986 Panuke B-90 discovery well, which flowed light gravity oil at a maximum rate of 6,096 bopd from a single productive sand. The objective of Panuke F-99 was to evaluate the southwestern extent and the thickness of the principal Panuke sands, to determine its overall productive capability, and to enable oil reserves in place and potentially recoverable reserves to be accurately assessed. Interests in the well were shared NSR(V)L 65% and Petro-Canada 35%.

The well was drilled to a total depth of 2,467 meters by July 25, 1987, following which an extended 6 day test production program was conducted. Test crude was conserved by means of continuous direct loading to a contracted tanker. Light (54.8°API), sweet oil was flowed from the principal Panuke sands at an average rate of 4,000 bpd. The test was terminated after a total production lifting of 23,400 barrels.

NSR(V)L's share of produced test oil was purchased by Petro-Canada, which transported the crude to its facilities in Montreal for refining and further testing. Rig release from well operations took place August 26, 1987.

The prolonged Panuke F-99 test program confirmed continuity and productive characteristics of the Panuke reservoir, and demonstrated that offshore oil could be loaded safely and efficiently over an extended period.



Rowan Gorilla 1 testing Panuke F-99 (Petro-Canada photo)

Scotian Shelf Oil Prospects

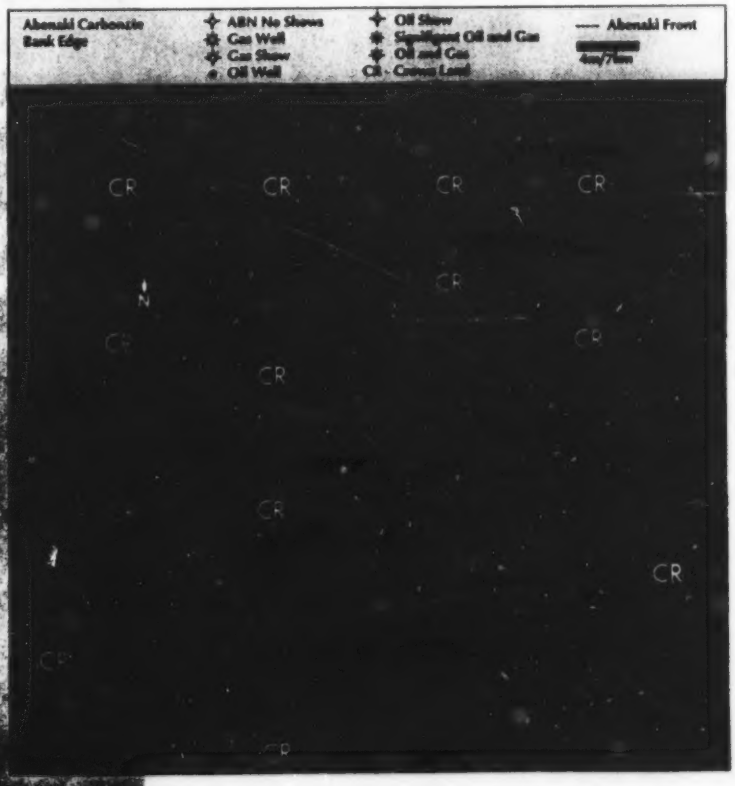
It is NSRL's view, confirmed by the successful drilling and testing of the oil-bearing Cohasset and Panuke structures, that a trend of attractive light oil-bearing prospects exists along the front of the Abenaki carbonate bank edge traversing the Scotian Shelf. This area of prospectivity was first identified through interpretation of the Company's exclusive high resolution seismic survey conducted in 1985. The Company intends to pursue the drilling of future oil targets at the earliest possible date.

Exploration Agreement #283

EA #283, operated by Mobil Oil Canada and in which the Company holds a 10% interest, covers exploration lands south and west of Sable Island but outside the gas discovery areas dedicated to the Venture Gas Project. EA #283, which was awarded for a three year term from 26 September 1986, includes the requirement that two exploratory wells be spudded prior to 26 September 1988 in order to retain rights to all subject lands outside of Significant Discovery Areas.

In summer 1987, Mobil conducted on behalf of its joint venture partners detailed wellsite surveys on three prospective drilling locations within EA #283. Subsequently all joint venture partners agreed to share the cost of maintaining the Rowan Gorilla I jack-up rig on standby in Halifax from 1 October 1987 so as to be available for an anticipated exploratory drilling program.

In March 1988, Mobil initiated the drilling of the South Sable B-44 exploration well. Participants in this well were Mobil 42%, Petro-Canada 30%, Texaco 18% and NSR(V)L 10%. The well was located in 38 meter water depth, 5km south of Sable Island and 9km northeast of the 1974 Intrepid L-80 gas/condensate discovery. Its objective was to evaluate prospective gas-bearing zones in the Cretaceous Lower and Upper Missisauga sandstones. On July 21, 1988 Mobil announced that a single test of the interval 3,641-3,648 meters flowed natural gas at the rate of 606,060 cubic meters (21.4 million cubic feet) per day, with 18.8 cubic meters (118.2 barrels) of condensate through a 38/64 inch choke. The well was terminated at a final depth of 5,207.5 meters (17,085 feet).



Cohasset/Panuke Project

The Company holds an approximate 20% working interest in the Cohasset field, estimated to contain 63 million barrels of oil in place, and an approximate 39% interest in the Panuke field, estimated to contain 38 million barrels of oil in place.

In early 1987 Petro-Canada and NSRL concluded their studies of Cohasset crude oil reserves . Further work was suspended during the drilling of the Panuke F-99 appraisal well. After preliminary evaluation of the results of the F-99 extended test program, it was agreed to establish a joint Cohasset Facilities Task Force that would complete studies of the Cohasset producibility and crude assays, assess various drilling and production strategies, and examine field development alternatives in order to select a preferred concept upon which detailed engineering could be conducted. The work did not include a technical assessment of Panuke field development.

Effective November 1, 1987 the Cohasset Task Force consisted of engineering representatives of Petro-Canada and NSRL reporting to a joint Steering Committee; all work was conducted in Petro-Canada offices in Calgary. Its conclusions, presented to the Steering Committee at end January 1988, selected a preferred conceptual "base case" for Cohasset facilities design and development.

NSRL has initiated a market investigation of the content and potential value of the Cohasset and Panuke crude oils. In the course of this study it has been in contact with selected refiners and crude marketing agents in eastern Canada and the eastern United States. Assays indicate these very light, sulphur free crudes contain a high proportion of naphtha, light and heavy distillates. NSRL has acquired a full analysis of the Cohasset crude relative to the international "marker" feedstock crudes available to the refiners, and intends to acquire similar information with respect to the Panuke crude.

The Company is encouraged by the Panuke F-99 results, the work of the Cohasset Task Force and its own technical and economic evaluations to continue to pursue the early development of Cohasset and Panuke. Technical information has been made available to other interest owners in the two fields, and discussions undertaken with them as well as other parties interested in possible development. At an appropriate point NSRL plans to discuss with government the establishment of a fiscal framework for early project development.

Venture Gas Project

Restrained by the level of world oil prices and a continuing but temporary gas oversupply in the United States, Venture Gas Project (VGP) pre-development activities were modest in 1987. Having completed the successful Thebaud C-74 multi-zone gas well in September 1986, Mobil Canada, as VGP Operator, conducted an analysis of drillstem test data and a study of the geology and reservoir of the complex Thebaud structure. Mobil also completed documentation of Venture full field model study results and engineering support for anticipated revisions to the initial Venture Development Plan prepared in 1984.

No wells were drilled by Mobil during the year in connection with the VGP. In early 1988 Mobil announced the drilling of an exploration well (South Sable B-44) approximately 5km south of Sable Island which could increase area gas reserves available to the VGP.

In 1987 Mobil and other VGP interest owners affirmed their support for eventual VGP development. With a strong anticipated improvement in U.S. northeast gas prices in the early 1990's, the VGP would be poised to proceed to commercial development.

NSRL commissioned a study by a U.S. energy expert that confirmed the growth potential of New England gas markets and the expectation gas purchasers and distributors will seek secure long-term supply contracts for the 1990's. The Company closely monitors the evolution of New England's energy market, its current and proposed suppliers, transportation alternatives, and regulatory changes.

OTHER ACTIVITIES

Gold Exploration

In 1987 the Scotian Mineral Exploration Program joint venture (Scominex), in which NSRL holds a 25.8% interest, completed the third year of a 3 year program to explore for gold in Nova Scotia.

After carrying out a winter 1986/87 bulk mining test operation at a gold-bearing site at Cochrane Hill, Guysborough County, Scominex decided to relinquish its option on this property.

The work of Inco Gold, operator for Scominex, in summer 1987 focused primarily on new prospect areas in the Cape Breton Highlands. Detailed follow-up surveys included trenching, drilling and soil geochemistry, and glacial and geological mapping. 3,623 meters of trenching were excavated, 25 diamond drill holes totalling 2,069.7 meters were drilled, and 4,947 soil samples were collected to provide data for more comprehensive mapping. Reconnaissance surveys included prospecting, geological mapping, and heavy mineral sampling. One hundred panned concentrate samples were collected during the course of the program.

Obtaining a heavy mineral concentrate with a "Goldwheel"

In addition, a 1,417 line kilometer airborne geophysical survey was conducted to assist in the complex geological interpretation. This included a gradiometer, spectrometer and Very Low Frequency (V.L.F.) in the instrument package.

As a result of this program, 15 showings of gold in quartz were discovered, some of which graded up to 2.76 oz./ton Au. Although these showings were found to be flat-lying and discontinuous, their widespread aerial distribution appears to indicate the presence of a substantial mineralizing episode.

Encouraged by this progress, Scominex has extended its exploration program through 1988 in order to determine the genesis of the mineralization. The main objective will be to understand the area's complex geology and structural setting, with the goal of delineating a gold deposit of economic significance.

Coal Water Fuel

During the year, the Company assumed the 25% participation of the Nova Scotia Power Corporation in a consortium established to study the feasibility of developing and marketing a new product known as Coal Water Fuel (CWF). This energy product consists of a mix of finely crushed coal, water, and a licenced chemical stabilizer (carbogel) and is presently manufactured by Cape Breton Development Corporation (CBDC). It is capable of replacing #6 oil in utility or industrial boilers with a minimum of facility conversion cost. Carbofuel is being successfully produced in a pilot plant constructed and operated by CBDC. To date a number of facilities in Atlantic Canada have tested CWF successfully.

The consortium has arranged, with assistance from the federal Oil Substitution Fund, to have CWF tested on a rigorous extended basis at a private industrial plant in Nova Scotia. It is expected that the results will confirm CWF's long-term technical reliability and efficiency. A preliminary market survey has been conducted, and expressions of commercial interest received. Possible construction of a larger CWF plant in Cape Breton will be discussed when the consortium has reviewed the extended test data and the results of further market investigations.

FINANCIAL

Cash Flow Acquisition Using Tax Pools

The Company has made public its policy to utilize the accumulated tax pools which result from its offshore expenditures in transactions to acquire cash flow. A major transaction in this regard, involving several other parties, was concluded in the fall of 1987. The Company acquired at a net cost of $10.5 million a production revenue stream from low risk, mature oil and gas properties in western Canada. Its taxable subsidiary Nova Scotia Resources (Ventures) Limited is able to shelter from tax the acquired revenues, thus achieving for NSRL an exceptional rate of return. It is intended to use the aquired cash flow to reduce the cost of NSR(V)L's future offshore program.

The acquisition was financed through the Company's Euro Commercial Paper Programme. After repayment of principal and interest, the aquired producing assets will generate substantial net cash flow to NSRL over the life of the applicable oil and gas reserves, presently estimated at 20 years.

Net revenues to March 31, 1988 and other details appear in the Notes to the Consolidated Financial Statements.

$25 Million Drilling Fund

During the year NSRL self-financed through its Euro Commercial Paper Programme certain offshore expenditures, 50% of which will be subsequently reimbursable under the $25 million Drilling Fund established under the Canada/Nova Scotia Offshore Petroleum Resource Accord. In 1987 it was agreed by government to extend the application of the Fund from December 31, 1989 to December 31, 1991.

Financing Costs Under The Euro Commercial Paper Programme

Since commencing its successful Euro Commercial Paper Programme in 1986, the Company has been able to take advantage of favourable interest rates and its interest cost has reduced to a level below LIBOR (London InterBank Offering Rate).

To provide funding availability for NSRL's committed and forecast offshore program as well as financial flexibility, the Province raised the authorized limit of the Programme from U.S. $110 million to $150 million in September 1987.

The strengthening of the Canadian dollar in relation to the U.S. dollar generated a large foreign exchange gain, which reduced the Company's total net financing cost during the year to Cdn. $1.5 million, and the cost of financing its accumulated offshore investment to Cdn. $1.2 million.

Flow-Through Share Transaction

Implementing a structure established in 1986, the Company's subsidiary Nova Scotia Resources (Ventures) Limited concluded a private flow-through share transaction in December 1987. Through it, a significant portion of the Company's Canadian Exploration Expense incurred through its 1987 drilling program was effectively transferred to a single investor. The consideration received has been applied to reduce the net cost of the drilling program by approximately 15%.

FINANCIAL STATEMENTS

Auditors' Report

To the Shareholders of Nova Scotia Resources Limited

We have examined the consolidated balance sheet of Nova Scotia Resources Limited as at March 31, 1988 and the consolidated statements of exploration expenditures and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the Company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the Company as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for exploration expenditures as explained in Note 1(b) to the financial statements, on a basis consistent with that of the preceding year.

Doane Raymond

Halifax, Nova Scotia
June 10, 1988

Chartered Accountants

NOVA SCOTIA RESOURCES LIMITED
CONSOLIDATED BALANCE SHEET
MARCH 31, 1988

ASSETS	1988	1987
Current		
Cash and term deposits	$ 7,000,297	$ 11,596,181
Receivables	10,509,192	3,364,725
	17,509,489	14,960,906
Exploration expenditures (Note 2)	114,684,710	110,417,384
Oil and gas producing properties (Note 6)	16,319,086	8,307,714
Mineral properties	867,044	668,558
Equipment and leasehold improvements	66,119	85,000
Other assets	345,676	3,887
	$149,792,124	$134,443,449
LIABILITIES		
Current		
Commercial paper (Note 3)	$141,797,707	$125,616,801
Payables and accruals	2,887,422	447,656
Current portion of long term debt	3,000,000	1,200,000
Deferred grants		461,886
Deferred revenue	176,079	
	147,861,208	127,726,343
Long term (Note 4)	1,930,913	6,717,103
	149,792,121	134,443,446
SHAREHOLDERS' EQUITY		
Capital stock		
Authorized		
40,000 common shares without par value		
Issued and outstanding		
3 common shares	3	3
	$149,792,124	$134,443,449

Contingency (Note 8)

ON BEHALF OF THE BOARD

Director

Director

NOVA SCOTIA RESOURCES LIMITED
CONSOLIDATED STATEMENT OF EXPLORATION EXPENDITURES
YEAR ENDED MARCH 31, 1988

	1988	1987
Balance, beginning of year	$110,417,384	$106,061,622
Drilling and exploration expenditures	15,116,707	3,276,830
General and administrative	884,357	916,890
Financing costs	1,159,417	3,639,386
	127,577,865	113,894,728
Less: Exploration incentives	(10,737,133)	(3,110,269)
Proceeds from flow through shares (Note 5)	(1,150,000)	
	(11,887,133)	(3,110,269)
Net revenues from oil and gas producing properties (Note 6)	(1,006,022)	(367,075)
Balance, end of year	$114,684,710	$110,417,384

NOVA SCOTIA RESOURCES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31, 1988

	1988	1987
Cash provided from (used for)		
Investing		
Purchase of		
Oil and gas properties	$(10,494,776)	$ (500,000)
Equipment and leasehold improvements	(16,143)	(933)
Mineral property exploration costs	(198,486)	(174,847)
Proceeds from flow through shares	1,150,000	
Cost incurred on offshore Nova Scotia oil and gas properties	(16,565,442)	(7,198,640)
Proceeds from exploration incentives	10,737,133	3,110,269
Depletion and depreciation	2,929,411	1,672,927
Changes in other non-cash working capital accounts	(5,332,297)	(459,830)
	(17,790,600)	(3,551,054)
Financing		
Proceeds from commercial paper	16,180,906	125,616,801
Reduction of long term debt	(2,986,190)	(75,040,217)
Reduction in bank indebtedness		(46,764,523)
	13,194,716	3,812,061
Net cash provided (used)	(4,595,884)	261,007
Cash and short term deposits, beginning of year	11,596,181	11,335,174
Cash and short term deposits, end of year	$ 7,000,297	$ 11,596,181

NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1988

1. Accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. A significant part of the Company's activities is conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in these activities.

(b) Exploration expenditures

The principal activities of the Company are in the exploration stage and accordingly the Company follows the full cost method of accounting for pre-production companies as prescribed in the Guideline on Full Cost Accounting in the Oil and Gas Industry issued by the Canadian Institute of Chartered Accountants. All costs incurred for the acquisition, exploration for and development of oil and gas reserves are capitalized within one cost centre. The amount of Petroleum Incentives Program grants and other exploration incentives earned is accounted for as a reduction of exploration expenditures.

Prior to 1987, the Company followed a policy of reporting the net revenues from the Western Canada producing properties, and certain other incidental revenue and overhead costs in a statement of income and deficit. Had the Company continued to follow this policy it would have reported a net income for the current year of approximately $1.2 million. However because the principal activities of the Company are centered in the Nova Scotia offshore region which is still in the exploratory stage, this accounting policy has been changed and these other revenues and expenses from secondary sources have been capitalized. Accordingly no income statement is presented and the $1.2 million of net income from these items has been applied to reduce the accumulated offshore exploration expenditures.

This change has been applied retroactively and accordingly the comparative results for 1987 have also been restated resulting in an increase in accumulated exploration expenditures as at March 31, 1987 of $1,380,588 of which $194,842 relates to 1987 operations.

(c) Oil and gas producing properties

The producing oil and gas properties in Western Canada are valued at cost. Depletion for these properties is calculated based upon the unit-of-production method.

(d) Mineral properties

The Company follows the full cost method of accounting whereby all costs of acquisition, exploration for and development of mineral reserves are capitalized and accumulated within one cost centre. Costs capitalized include overhead related to exploration and development activities as well as interest and foreign currency gains and losses related to funds borrowed for these activities.

(e) Foreign currency translation

Assets and liabilities have been translated to Canadian dollars using the exchange rate on March 31, 1988. Transactions during the year are recorded using the exchange rate in effect at the date of the transaction.

(f) Income taxes

The Company follows the tax allocation method of accounting for income taxes in its subsidiary company whereby deferred taxes are provided to the extent that current taxes have been reduced by claiming capital cost allowance and exploration, development and acquisition expenses in excess of the related depletion, depreciation and amortization provided in the financial statements.

2. Exploration expenditures

The Company's exploration expenditures are in the offshore Nova Scotia region and include $34.7 million (1987-$33.5 million) of accumulated net financing costs and have been reduced by $90.7 million of Petroleum Incentives Program grants and other exploration incentives earned.

3. Commercial Paper

On October 9, 1986 the Company established a Euro Commercial Paper Programme under which it issues short-term notes with the guarantee of the Province of Nova Scotia up to a maximum aggregate principal amount not exceeding U.S. $150 million dollars. The notes are denominated in U.S. dollars and the principal balance outstanding at March 31, 1988 is U.S. $116 million dollars. Since the short-term notes are revolving on a 30 to 180 day basis they have been classified as a current obligation.

To support the note programme, the Company has arranged a Revolving Underwritten Facility which provides committed bank funding to U.S. $60 million dollars. This credit facility has a 5 year term to October 9,1991 and includes participation by 12 international banks. Repayment of advances is guaranteed by the Province of Nova Scotia. The aggregate principal obligation issued under the Euro Commercial Paper Programme and the Revolving Underwritten Facility cannot exceed U.S. $150 million dollars.

4. Long-term debt

In 1985, the Company borrowed $11.1 million to acquire oil and gas producing properties in Western Canada. The loan is being repaid from net revenues from the properties and the lender has no other recourse to the Company. The principal balance of the loan at March 31,1988 including the current portion due within one year is $4,930,913 (1987-$7,917,103).

5. Flow through shares

During the year the Company's subsidiary issued flow through shares enabling the Company to flow through certain of the tax expenditures earned from its exploration program to an investor. The consideration earned from this transaction has been accounted for as a reduction of exploration expenditures.

6. Oil and gas producing properties

In 1985 the Company purchased an interest in certain oil and gas producing properties in Western Canada. After all direct expenses, the Company earned net revenues from these properties of $109,045 (1987-$367,075) for the year.

In October 1987, the Company acquired an interest in certain other oil and gas producing assets in Western Canada at a net cost of $10.5 million dollars. The acquisition was financed through the Company's Euro Commercial Paper Programme. After all direct expenses and an allocation of financing costs, the Company earned net revenues from these properties of $896,977 to March 31, 1988.

The net revenues earned from the oil and gas producing properties are credited to the carrying value of exploration expenditures.

7. Losses carried forward

The Company, through its subsidiary, Nova Scotia Resources (Ventures) Limited, has losses carried forward for income tax purposes totalling $19.2 million which are due to expire in varying amounts over a period from March 31, 1990 to March 31, 1995 unless applied against taxable income of the Company. The tax benefit related to these losses has not been recognized in these financial statements.

8. Contingency

The recovery of offshore exploration expenditures aggregating $115 million at March 31, 1988 is contingent upon the achievement of commercial production from the Nova Scotia offshore. The Company holds interests in substantial established offshore gas and oil reserves the commercial production from which, in management's opinion, would be sufficient to retire the Company's aggregate exploration and development expenditures. Under current market conditions the date of commencement of offshore commercial production is uncertain.

BOARD OF DIRECTORS

Peter A. Outhit
President
Nova Scotia Resources Limited
Halifax, Nova Scotia
CHAIRMAN

Dennis Ashworth
Barrister & Solicitor
Patterson, Kitz
Halifax, Nova Scotia

J. Ewart Blanchard
Consultant
Halifax, Nova Scotia

Ronald B. Coleman
President
R.B. Coleman Consulting Co. Ltd.
Calgary, Alberta

H. Purdy Crawford, Q.C.
Chairman, President and
Chief Executive Officer
Imasco Limited
Montreal, Quebec

Thomas Lynch
President
Lynch Investments Limited
Halifax, Nova Scotia

John MacPherson
Principal Assistant to the Premier
Government of Nova Scotia
Halifax, Nova Scotia

Allan G. Manuel, C.A.
Deputy Minister
N.S. Department of Finance
Halifax, Nova Scotia

Hon. John E. Shaffner
Retired
Port Williams, Nova Scotia

John L. Stoik
Consultant
Toronto, Ontario

PRINCIPAL OFFICERS

President and Chief Executive Officer
Peter A. Outhit
Halifax, Nova Scotia

Secretary
Joseph A.F. Macdonald, Q.C.
McInnes Cooper & Robertson
Halifax, Nova Scotia

Treasurer
Robert B. MacDiarmid
Halifax, Nova Scotia